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REPORT OF THE COMMITTEE ON WAR FINANCE

DISCUSSION AT THE RICHMOND MEETING

The consideration of the Report of the Committee on War Finance occupied one session of the Annual Meeting of the American Economic Association at Richmond, Virginia, on December 27, 1918. Advance printed copies were distributed to the members present. In opening the meeting, and in the absence of the chairman, Professor E. W. Kemmerer briefly outlined the Report and summarized its conclusions. Discussion of it was then opened by Professor T. S. Adams, who spoke informally and, owing to pressing duties, could not supply manuscript. The other discussion is here appended to the Report itself instead of being printed in the *Proceedings*.

GEORGE E. HOLMES: If it becomes necessary to retain the excess-profits tax after the year 1919 in order to meet the heavy disbursements which the government will be called upon to make, it seems essential that the tax rate should be proportional; that is, a single rate should apply to all income in excess of the deduction prescribed by law rather than progressive rates. If the tax is designed to bring in revenue over a long period of time, a moderate or even a fairly high proportional rate will achieve that end more effectively than progressive rates. The latter tend too strongly to reduce all profits to one level with relation to the amount of capital invested. Normally, large profits are essential to induce capital into fields of financial hazard — new enterprises — to encourage industry and to promote progress. The hope of large profits is an incentive which cannot be checked without danger to the national prosperity. A tax can become a measure of repression or of regulation rather than a measure of revenue. The evils of bending a tax law to such ends are great and should be avoided.

Another point which I wish to emphasize is with respect to the principle contained in the present law of placing an excess-profits tax on gains from the sale of the taxpayer's assets. Contrary to the English and Canadian practice, our law imposes a tax on gains which may be derived by the taxpayer from the sale of his assets. The result is a positive and unwise restraint on the alienation of property. Although it is true that a taxpayer may derive great gain by such sale, such a gain is an extraordinary accretion to his capital, taken from the capital of someone else, and bears no relation to his annual income. It would seem that

such gain, except in the case of dealers, should be taxed at proportional and not progressive rates, if at all.

The greatest difficulty in the administration of the present law is the computation of invested capital. A more definite and certain method should be adopted. This, perhaps, may be gradually accomplished by imposing, as a permanent part of our revenue system and in conjunction with the income tax, an excise tax for the privilege of doing business, measured by the value of the assets employed in such business. The rate of tax should be so low as not to be burdensome to the business which in normal times yields a small return upon the investment. The importance of a tax of this character lies in the fact that the record of the value of assets in particular trades and businesses so acquired would form adequate and valuable data to determine what are excess or war profits in extraordinary times, as compared with normal profits in normal times. Foresight in this direction may at some future time avoid the confusion and uncertainty which have been the bane of the government and the taxpayer in the administration of our present excess-profits tax.

JOHN CUMMINGS: I can perhaps qualify as a partial dissenter as regards one or two articles of more or less generally accepted faith.

Barring some allowances which must be made for the unsound psychological conditions which obtained early in the war, none of the arguments urged popularly, officially, and even with scientific sanction in support of the policy of meeting any very large proportion of extraordinary war-time expenditures out of the proceeds of bond issues seems convincing. Economists must recognize fully the necessity for taking into account the psychology of a present situation, the false equally with the sound psychology. But taking account of a false psychology as a condition of successful initiation of any policy, is a very different matter from accepting that psychology as sound in itself, and a real professional responsibility rests upon economists to create a sound public opinion based upon a correct analysis.

Where expenditures are mounting up so rapidly that new tax yields cannot keep pace with them, some short-time paper issued in anticipation of tax yields may be unavoidable. The tax yield should, however, be brought up as speedily as possible to the level of war expenditures, as provided in the government's financial program; and at that point where making war becomes—as it had become in England and on the Continent, after the first two or three years of adjustment—a routine business, at that point where adjustments have been made on a permanent basis, so that the war can be continued indefinitely at a given level of expenditure, the tax revenue should be brought up to the level of expenditure; and from that point on the cumulation of a funded debt should cease.

The policy of meeting the extraordinary expenditures of war out of the proceeds of bond issues is essentially a paper-money policy, and all

of the arguments that can be urged for and against the issue of unsecured fiat paper money in war time can be urged with equal validity for and against bond issues for the same purposes; and the arguments urged in support of bond issues, although somewhat more ingenious, are no less fallacious than those which used to be proposed in a more naïve age, and are today urged in less sophisticated communities, in support of paper money issues.

When one pays 60 cents a pound for breakfast bacon that used to sell for 25 or 30 cents, and similarly for other essential commodities approximately \$2 for what used to cost \$1, and when one observes that this advance in prices embraces practically all commodities, one must conclude that the policy of conducting the war with the proceeds of bond issues has been a financially unsound policy.

Our experience during the past year and a half has demonstrated, it seems to me beyond any question, that bond issues are an immediate and direct occasion of inflation. At least inflation is a present condition which must be explained and justified, or it must be accepted as being incontrovertible evidence of unsound financial policy.

Government credit extended to cover the unproductive expenditures of war, has no economic basis. It has the inherent quality of indefinite expansion and inflation, just as have issues of paper money.

I will venture to say that no one of us in this room feels that he has been taxed to the full extent of his ability to pay, or even approximately to the full measure of his ability to pay. But we are all of us going to be taxed in years to come, not only to pay the cost of the war, which we have been paying once while the war has been in progress, but to pay the cost of inflation during the war, and to pay interest on an inflated valuation of that cost.

Stability of prices is as essential in war time as in peace time, and we have not preserved any fair degree of stability during the war. This seems to me greatly to our discredit. It seems to me incontrovertible evidence of unsound finance. If we now proceed to pay off the debt we must again disturb stability—if one may by courtesy use the word stability in referring to the present level of prices.

Inflation is an absolutely certain and accurate measure of unsound financial policy. It is entirely unnecessary. It distributes the burden of war inequitably—and the process of deflation is equally inequitable. Enhancement of prices in war time, except enhancement in certain lines in the process of adjustment to war demands, is indefensible. Under a sound financial policy any enhancement of prices in special lines would be offset by a decline of prices in other lines. We have not witnessed any compensating declines in any lines. In other words, we have experienced a tremendous depreciation of our currency at precisely the time when maintenance of value was of vital consequence.

Taxation wisely devised has the prime virtue of releasing labor and

capital from non-essential industries, and making this released labor and capital available for war purposes. That which the individual pays in taxes, he cannot expend for commodities or invest in non-essential activities. The power of directing the released labor and capital into war activities passes directly to the government, which is the proper agency of direction. When dependence is placed upon inflation, what assurance can be given that the government will benefit in proportion as prices are advanced to consumers? As a consumer, I should certainly prefer to pay directly to the government a tax of 30 cents a pound on every pound of bacon consumed, rather than pay 60 cents a pound on the assumption that the retailer, the wholesaler, and other distributors will pay my tax for me in full to the government, or on the assumption that in some way or other the government will receive a benefit which may fairly be assessed as worth 30 cents. Some of the 30 cents may very easily and naturally stick in hands of the various distributors and producers.

Again, none of the arguments which have been urged during the war period in support of the war-profits tax seems to me convincing. I cannot see any justification for distinguishing between war profits and other profits, and I cannot understand why all profits in every line, whether greater or less in war time than in the period immediately preceding the war, should not be equally subject to tax without any discrimination, the present amount or rate of profit determining the rate and amount of the tax. Why should an industry which has become highly profitable in war time be penalized by excess taxation, as compared with an industry which was highly profitable before the war and continues profitable during the war? The industry which becomes highly profitable, and also the industry which simply continues to be highly profitable, are both probably essential industries in war time. I can see no advantage whatever in complicating the administration of the tax, by making the tax in any way dependent upon prewar conditions. One of our Washington officials is credited with having a sign posted over his desk which consigns "yesterday" to a very hot place because "this is today." That pretty well expresses a correct principle for taxing war profits, or rather profits in war time and after. They should be taxed for what they are today without reference to what they were yesterday.

I find myself sufficiently in accord with the committee's conclusions regarding the details of our financial legislation, the incidences of different sorts of taxes, and the defects of our several taxation acts. As an application of generally accepted principles of public finance to the smaller issues of taxation incidences and equities, the report is illuminating.

KINGMAN NOTT ROBINS: I am assigned for discussion the subject of exemption from taxation, either partial or complete, of evidences of public debt in the hands of the holder. These securities include, of course,

U. S. Government bonds, Federal Farm Loan bonds ("instrumentalities of the U. S. Government"), state bonds, and the bonds of the various political subdivisions of the state.

I find myself in entire agreement with the findings of the committee, and what I have to say can only be in amplification of the committee's argument against tax exemption. No argument for tax exemption, except expediency, is advanced either by the committee or any proponent of the policy, so far as I am aware.

May I summarize the principal objections as follows:

1. Tax exemption runs directly counter to the accepted principle that taxation should, as far as possible, be proportionate to ability to pay. This is particularly true under the operation of a sharply graded income tax. The appeal of the tax-exempt security to investors is in proportion to their tax burdens—the greater the burden, the greater the appeal. Inevitably the market price for tax-exempt securities is fixed by the demand of those investors who escape the heaviest tax burdens by owning such securities. This market price is too high to attract other investors, with the result that the ownership of tax-exempt securities tends to concentrate in the hands of those who would otherwise pay the heaviest taxes.

The result is not only injustice to the taxpayers as a whole, because of the shifting of the burden from the shoulders of those best able to bear it; it is also costly. If the facts supported the contention that what is lost in taxes is made up by saving in the amount or rate of interest paid by the borrower, the prices for tax-exempt bonds and taxable bonds would vary in direct ratio to this apparent saving. Obviously, this is not the case. At the present market, the spread in yield between the tax-exempt First Liberty Loan and the subsequent issues is only about 1 per cent, whereas the recipients of incomes in the upper brackets under the pending revenue bill derive as much net return from the 3½ per cent tax-exempt bonds as they would from taxable bonds yielding from 10 to 12 per cent. To further illustrate, the spread in yield at the present market between the tax-exempt 5 per cent Federal Farm Loan bonds and similar securities without federal subsidy in the form of tax exemption, is from ½ of 1 per cent to 1 per cent, whereas the recipient of an income in the higher brackets of the present law gets as high a net return on these Federal Farm Loan bonds as he would on a taxable security yielding 12 to 15 per cent.

In other words, the so-called saving to the borrower afforded by the privilege of having his obligation exempted from taxation is far less than the total in taxes that this exemption costs the state, or shifts from the large to the small taxpayer.

To put this loss concretely, under the present law a tax-exempt security yields the recipient of an income of \$1,500,000 to \$2,000,000 a total

exemption from federal tax alone of 66 per cent. Local taxes are assessed on capital rather than on income. A tax of one-half of one per cent, or \$5 on \$1000, is a very modest estimate of the value of exemption from all state, county, and local taxation, which, added to the federal tax exemption, gives a total exemption of \$38 every year out of the \$50 total income on a \$1000 5 per cent Federal Farm Loan bond. Careful observation and thorough analysis of reports from the loaning field of the banks operating under the Federal Farm Loan Act, show that over 80 per cent of their loans are now made in localities where the spread between the rate to the borrower on taxable farm mortgages and the rate on the loans of the Federal Farm Loan Banks does not exceed one-half of one per cent. In other localities, where pioneer conditions and climatic uncertainties increase the hazards, a spread of one per cent is sometimes found. In the first instance, the borrower gains \$5 as compared with a loss of \$38, a loss of more than seven to one. In the latter instance, the borrower gains \$10 a year on a \$1000 loan, or only a trifle more than one-fourth of what is lost in taxes on the \$1000 bond.

Owing to the fact that there seem to be no obtainable figures on the total of outstanding tax-exempt securities in the United States, the money total of the possible loss or shifting of taxation due to these exemptions cannot be calculated. It may be illustrated, however, by the fact that if as much as one-half of the outstanding farm-mortgage indebtedness of the country were in the form of Federal Farm Loan bonds, under the present revenue law the federal government alone would conceivably lose \$66,000,000 in exemptions.

The fallacy of the argument for tax exemption on the ground of expediency seems, therefore, apparent.

TABLE SHOWING THE ADVANTAGE IN YIELD OF TAX-EXEMPT BONDS
AS COMPARED WITH TAXABLE BONDS OF THE SAME RATE.

	Tax %	3 %	3½ %	4 %	4½ %	5 %	5½ %	6 %
\$5,000 to \$6,000.....	8	3.26	3.80	4.35	4.89	5.43	5.98	6.52
\$10,000 to \$15,000.....	19	3.70	4.32	4.94	5.55	6.17	6.79	7.45
\$20,000 to \$30,000.....	27	4.11	4.79	5.48	6.16	6.85	7.53	8.22
\$40,000 to \$50,000.....	37	4.77	5.55	6.35	7.11	7.94	8.73	9.52
\$60,000 to \$70,000.....	50	6.00	7.00	8.00	9.00	10.00	11.00	12.00
\$80,000 to \$90,000.....	58	7.14	8.33	9.52	10.71	11.91	13.10	14.29
\$100,000 to \$200,000.....	62	7.89	9.21	10.53	11.84	13.16	14.47	15.79
\$200,000 to \$300,000	64	8.33	9.72	11.11	12.50	13.89	15.28	16.67
\$300,000 to \$500,000.....	66	8.82	10.29	11.76	13.24	14.71	16.18	17.65
\$500,000 to \$1,000,000... ..	70	10.00	11.67	13.33	15.00	16.67	18.33	20.00
\$1,000,000 to \$5,000,000...	72	10.71	12.50	14.29	16.07	17.86	19.64	21.43

TABLE SHOWING INCOME TAXES, BOND YIELDS, AND TREASURY

NET INCOME.	Amount subject to sur-tax at rate shown on same line in Column C.	Rate of surtax for amount on same line Column B.	Amount of surtax on amount of same line Column B.	Normal tax of 4% on amount of same line in Column B.	Aggregate of surtax and normal tax for amount on same line Column B.
A	B	C	D	E	F
\$4,000					
5,000	\$1,000			\$40	\$40
7,500	2,500	1%	\$25	100	125
10,000	2,500	2%	50	100	150
12,500	2,500	3%	75	100	175
15,000	2,500	4%	100	100	200
20,000	5,000	5%	250	200	450
40,000	20,000	8%	1,600	800	2,400
60,000	20,000	12%	2,400	800	3,200
80,000	20,000	17%	3,400	800	4,200
100,000	20,000	22%	4,400	800	5,200
150,000	50,000	27%	13,500	2,000	15,500
200,000	50,000	31%	15,500	2,000	17,500
250,000	50,000	37%	18,500	2,000	20,500
300,000	50,000	42%	21,000	2,000	23,000
500,000	200,000	46%	92,000	8,000	100,000
750,000	250,000	50%	125,000	10,000	135,000
1,000,000	250,000	55%	137,500	10,000	147,500
1,500,000	500,000	61%	305,000	20,000	325,000
2,000,000	500,000	62%	310,000	20,000	330,000
Over 2,000,000	any amt.	63%

2. The injustice of tax exemption may well be regarded as an even stronger argument against tax exemption than inexpediency.

Tax exemption nullifies the equitable working of a graduated income tax, otherwise coming to be generally recognized as the most equitable of taxes in its incidence, for those required by a graduated income tax to pay the heaviest rates are the most likely to escape taxation entirely by investing their funds in tax-exempt securities.

A committee appointed by the National Tax Association to recommend a model plan for state and local taxation made the following statement on page 14 of their report, prepared for the conference of the Association, November 12-15, 1918:

We are aware that, under the unreasonable and unworkable requirements of the general property tax, it has appeared desirable in times past to exempt state and local bonds from taxation, to exempt real estate

LOSSES FROM EXEMPTIONS UNDER LAW OF OCTOBER 3, 1917.

Annual loss to National Treasury on \$50 income on each \$1000 5% Federal Land Bank bond at rate on same line in Columns D and E.	Net yield to investor of tax-exempt Federal Land Bank 5% bonds.	Net yield to investor of 4% Liberty bonds on amounts in excess of maximum exemption from surtax.	Net yield to investor of taxable 5% bonds subject to surtax and normal tax.	Net yield to investor of taxable 6% bonds subject to surtax and normal tax.	Net yield to investor of taxable 8% bonds subject to surtax and normal tax.	Rate required on taxable securities to yield 5% net as part of income shown same line Column B.
G	H	I	J	K	L	M
.....	5%	4.25	5.00	6.00	8.00	5.00
\$2.00	5%	4.25	4.80	5.76	7.68	5.208
2.50	5%	4.207	4.75	5.70	7.60	5.263
3.00	5%	4.165	4.70	5.64	7.52	5.319
3.50	5%	4.122	4.65	5.58	7.44	5.376
4.00	5%	4.080	4.60	5.52	7.36	5.434
4.50	5%	4.037	4.55	5.46	7.28	5.494
6.00	5%	3.910	4.40	5.28	7.04	5.681
8.00	5%	3.740	4.20	5.04	6.72	5.962
10.50	5%	3.527	3.95	4.74	6.32	6.329
13.00	5%	3.315	3.70	4.44	5.92	6.756
15.50	5%	3.102	3.45	4.14	5.52	7.246
17.50	5%	2.932	3.25	3.90	5.20	7.692
20.50	5%	2.677	2.95	3.54	4.72	8.474
23.00	5%	2.465	2.70	3.24	4.32	9.259
25.00	5%	2.295	2.50	3.00	4.00	10.000
27.00	5%	2.125	2.30	2.76	3.68	10.869
29.50	5%	1.912	2.05	2.46	3.28	12.195
32.50	5%	1.657	1.75	2.10	2.80	14.285
33.00	5%	1.615	1.70	2.04	2.72	14.705
33.50	5%	1.572	1.65	1.98	2.64	15.151

mortgages and to grant various other exemptions. All such exemptions are inconsistent with the theory of the tax we here propose, and should be discontinued as rapidly as the circumstances of each case permit. . . .

The personal obligation of the citizen to contribute to the support of the government under which he lives should not be affected by the form his investments take, and to exempt any form of investment can only bring about an unequal and therefore an unjust distribution of this tax. Our reasoning applies, of course, to the exemption which agencies of the federal government now enjoy.

Tax exemption is also unjust as applied to federal issues, because it unfairly affects the market value of taxable bonds in the hands of purchasers in good faith. Moreover, it creates a distinction in the value of the securities in the hands of holders, depending on whether they are wealthy or otherwise, which is unfair to the less favored holders, especially when they are asked to buy them on grounds of patriotism.

This was especially true, for example, in the case of the $3\frac{1}{2}$ per cent First Liberty Loan, the interest return on which was adjusted to the requirements of the very wealthy, although the appeal to purchase was made to rich and poor alike. Moreover, a tax-exempt bonded debt involves an inequitable distribution of the tax burden for years to come.

Tax exemption when applied to federal issues, however, is less objectionable than when applied to state, municipal, or other local group or personal obligations. In the case of the latter, benefit is limited to the one locality, group, or individual, whereas the non-taxability of the security is disadvantageous to every taxing jurisdiction where it is held. When a county of New York issues tax-exempt bonds, it shifts its burdens onto the taxpayers wherever the bonds are held. When the government makes Federal Farm Loan bonds exempt, it provides for a shifting of the farmer's burden onto the taxpayers of the entire country, and we have seen that in the shifting the burden may well have grown seven-fold. As a matter of dollars and cents, the affected taxpayers could much better afford to grant the borrowing communities and farmers a direct cash subsidy equal to the saving these borrowers enjoy from tax exemption.

3. Another objection to tax exemption is that, once instituted, it tends to force all securities to a tax-exempt status. Tax exemption, like all special privileges, is in the nature of a special favor to a group or class of the population. It purports to give that class or group a saving in interest by making their securities more readily marketable. It is clear, however, that this apparent saving is directly at the expense of the taxpayers of the jurisdiction where the tax-exempt securities are held, and indirectly at the expense of all borrowers whose securities are not tax-exempt and who must, therefore, pay a relatively higher rate of interest to make their securities saleable. Those borrowers who have not the privilege of tax exemption naturally object to the discrimination against them.

It is true that the special privilege of tax exemption has not been granted to any class of the population as a whole at the expense of the rest of the people, except in the case of the farmers who borrow from the Federal Farm Loan Banks—a very small fraction, by the way, of the farming population. But even this precedent has been followed by well-supported propositions to finance small urban borrowers by the issuance of similar tax-exempt bonds, and to create a national system of government personal credit banks (H. R. 8827), to be financed by tax-exempt issues.

The privilege of tax exemption, as granted by government, either federal or state or municipal, to one group or class in the population, is essentially a subsidy, and on the granting of such subsidies (in effect grants of public moneys—the taxpayers' moneys). Mr. McAdoo spoke truly when he said: "If we go into the money-lending business, we will

have to lend it to everybody. You cannot discriminate under our system of government."

The logical result of the progressive increase of tax-exempt issues is to deprive federal and local government of its power to levy taxes on intangible personal property. This would be a situation the reverse of desirable, and directly at variance with the enlightened attempts to more justly equalize the burden of taxation as between tangibles and intangibles. It would seem to be the only proper course for the federal government to remove all tax-exemption provisions from its own issues and those under its direction, such as the Federal Farm Loan bonds and, so far as it has power, tax all issues of the political subdivisions of the country. The protest will, of course, be violent, but the disease needs a drastic remedy before it becomes incurable.

WILLFORD I. KING: It seems to me that the thanks of the Association are due to the Committee on War Finance for the very able and well-balanced report which they have presented. I find myself endorsing almost every sentence of the recommendations made and the arguments therein are so clearly set forth that they need few additions. However, I feel that, in one respect, the committee might, with propriety, have been more radical in its recommendations. I refer to that part of the Report which deals with the taxation of corporations.

A careful reading of the Report gives me the feeling that our system of taxing corporations may well be compared to an old house offered for sale to a prospective purchaser. The house is large and roomy and, at first glance, creates a favorable impression. Unfortunately, however, the lawn requires grading and sodding, and the need for new sidewalks is imperative. The weatherboarding should be replaced. The inside of the house needs complete remodeling and finishing. Incidentally, a new furnace, new plumbing, new chimneys, and a new roof are essential. Otherwise, the house is in good condition. When finally remodeled, one can live in it with only a minor degree of discomfort. The question is, "Is the house worth repairing?"

Ordinary experience says: "No! tear the old structure down and erect in its place a building such as the prospective purchaser really desires." Is not similar drastic action, likewise, the only legitimate procedure with regard to the federal taxes on corporations?

Our committee correctly points out that these taxes have proved a fiscal success. Great revenues have actually been derived therefrom. The same argument appeals to the Oriental Sultan when he farms out taxes to his satraps, with no command except to return the required amount of money. It seems to me that the argument of productiveness is only worthy of endorsement if it is apparent that equal revenue can be obtained by no more equitable device than the one in question.

And are our present corporation taxes equitable? If so, to what

principle of justice in taxation do they conform? Is the benefit theory to be invoked? If so, where is the justice in our government's taxing a corporation on war profits made before the United States entered the conflict? The governments previously at war made the profits possible and, if the benefit theory is to be followed, THEY ought to receive the revenue.

It may be said that the corporation taxes are levied in proportion to *ability to pay*. The ability-to-pay theory, however, is based upon the psychology of individuals and does not at all apply to those artificial persons called corporations. It assumes a minimum income necessary for subsistence with a constant diminution in the utility of a dollar as the income grows larger. The corporation has no psychology. It is merely an intermediary for passing profits along to its stockholders. It is they, if anyone, who should be taxed according to ability to pay.

As a matter of fact, our corporation taxes seem to be based upon a theory first vigorously set forth by the Berlin-financed pacifist press, which sought to hold up to ignominy and shame the corporations which were supplying our future allies with those very sinews of war that saved the world for Democracy. We were told that these soulless corporate monsters were fattening upon the blood of men—that the suffering of humanity was the price of their prosperity. Unconsciously or thoughtlessly, a large part of the patriotic American public came to endorse the view that those who profit by war should pay its costs. On its face, this proposition seems so manifestly fair that many of our keenest thinkers have become convinced of its essential justice and the unprecedentedly heavy corporation taxes now levied are largely the result of this conviction.

Granting, purely for the sake of argument, the correctness of the thesis that those who profit should pay—have the corporation taxes really compelled the men who profited by war—the so-called profiteers—to foot the bill? If we do not blind ourselves to the transactions on the stock exchange, we must hesitate long before answering this question in the affirmative. What really happened in 1916? The facts appear to be about as follows: The war financiers had booked their orders, counted their prospective profits and heralded these gains abroad in no uncertain tones. But, at the same time, they were listening to the rumbling of the coming storm of taxes. While, however, they were advertising to the full their prospective profits, they had pulled down the curtain upon the oncoming tax burdens. As a result, war stocks boomed tremendously. The insiders unloaded upon the general public, pocketing the profits. The lambs—largely men of small means—were the ones actually holding the stocks when the war tax was levied and the bottom dropped out of the market; hence they were the ones who really paid the tax. The punishment destined for the “profiteers” was largely shifted to these recent purchasers.

But how could this situation have been avoided? Simply by levying upon individual incomes the same total amount of taxes collected from the corporations. The records of corporate dividends and of transactions upon the exchanges might easily have been used to ascertain the amount of income secured by individuals from these sources. By placing the tax entirely upon individuals, the burden might really have been apportioned according to *ability to pay*, and any genuine "profiteering" could thus have been reached.

But it will be urged that the corporation that refrains from paying dividends, and hence builds up its surplus instead, goes untaxed. Well, why should it not? If the proceeds are still being used for the furtherance of social needs, what justification is there for taxing these profits? As long as the funds remain a part of the assets of a legitimate business, they are still working for the general welfare. This being true, why not wait for the day when the dividends are paid before demanding the government's share?

Furthermore, the present system of taxes severely penalizes the efficient corporation. Why should the growth of the successful concern be hampered while that of the inefficient producer is fostered? Certainly, this policy is entirely contrary to all of the best interests of society, for it does not favor maximum output per unit of invested effort.

Perhaps, however, the taxes on corporations are really designed to punish monopolies rather than to penalize those profiting by war. If so, the law should certainly exempt non-monopolistic corporations, but nothing of the kind has been attempted. Monopolists and competitors are treated alike. Hence, present corporation taxes cannot be justified upon this basis.

There may be valid arguments in favor of taxing corporations but, if so, they have escaped my notice. Legislators naturally are led to favor such taxes because they provoke so little opposition from their constituents. This is the case largely because the majority of people still feel that a corporation tax in some way reduces the size or absorbs a large share of the burden which would otherwise fall upon the incomes of ordinary citizens. As a matter of fact, however, this very inability to realize that the tax must eventually all be paid out of individual income is dangerous to the public welfare, even though it makes the tax popular in Congress. Any tax which is paid unwittingly is always likely to furnish a first-class hotbed for extravagance, waste, and graft.

It is manifestly impossible to go into detail in the limited time at my disposal, hence I have attempted merely to suggest reasons which, to my mind, furnish sufficient cause for entirely eliminating all classes of corporation taxes from the sources of revenue utilized by the federal government.

E. L. BOGART: As the only member of the War Finance Committee

now present at this section meeting, I feel that it is incumbent upon me to defend the committee against some of the criticisms which have been made by previous speakers. As to President McVey's criticism¹ that the committee seemed inclined to admit the possible desirability of a federal land tax—or at least not positively to condemn it—I need only refer to the main report upon this subject. Here it is stated unequivocally that under existing circumstances the committee is opposed to a federal land tax, though it recognized that situations might arise which would make the land tax for federal purposes at least a subject of discussion.

Two or three of the speakers have expressed regret that the report did not submit more constructive proposals, and that it was on the whole too conservative. In reply to these criticisms I wish to say, first, that the committee construed its functions as those of a war committee. As the armistice was declared before the committee concluded its deliberations, positive recommendations as to war finance seemed rather anti-climactic. And on the other hand it did not feel justified, nor indeed did it have the time, to formulate any constructive proposals for post-war finance. For this purpose it recommended the constitution by the Association, if it desired to have this matter considered, of a new committee.

In the second place, I should like to point out that the report of the committee was unanimous. It is possible to achieve unanimity in a committee of this size, dealing with so many controversial matters, only by the elimination of extreme views and agreement upon fundamental principles. Such a process of joint counsel and compromise does not in my opinion weaken the report, but on the contrary greatly strengthens it. The report is not to be regarded as the conclusion of the discussion, but rather if you will as the starting point. It is the hope of the committee that a foundation at least has been laid by this report.

¹ Manuscript of President McVey's part in the discussion was not received.